



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audits Division
1111 Broadway, Suite 1200
Oakland, California 94607-4052

June 4, 2003

MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico, Field Office Director

SUBJECT: Kaiser Foundation Health Plan, Inc.
Los Angeles, California
Public Assistance Identification Number 037-90621
FEMA Disaster Number 1008-DR-CA
Audit Report Number DO-10-03

At the request of the California Office of Emergency Services (OES), the Office of Inspector General (OIG) performed an interim audit of public assistance funds awarded to the Kaiser Foundation Health Plan, Inc., Los Angeles, California (Health Plan). The objective of the audit was to determine whether the Health Plan expended and accounted for Federal Emergency Management Agency (FEMA) funds for completed projects according to federal regulations and FEMA guidelines.

The Health Plan received an award of \$691,139 from OES, a FEMA grantee, for completed projects related to debris removal, emergency protective measures, and permanent repairs to Health Plan facilities damaged by the Northridge earthquake on January 17, 1994. The award provided 100 percent FEMA funding for emergency work until January 25, 1994, and 90 percent FEMA funding thereafter for large and small projects.¹ The award consisted of \$541,602 for 8 large projects and \$149,537 for 30 small projects. The audit covered the period January 17, 1994, to May 2, 2002.

¹ Federal regulations in effect at time of the disaster defined a large project as one costing \$42,400 or more and a small project as one costing less than \$42,400.

The OIG conducted this audit concurrently with an audit of the Kaiser Foundation Hospital (Hospital), Public Assistance Identification Number 037-90328 (OIG Audit Report Number D0-09-03, dated May 29, 2003). Since the Health Plan and Hospital commingled their funding and accounting practices, the OIG's audit of the 40 large Hospital projects provided the fieldwork testing for the Health Plan. The OIG reviewed the Health Plan's funding for all small projects to identify applicable insurance recoveries (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included a review of FEMA's, OES', and the Health Plan's records, a judgment sample of project expenditures, and other auditing procedures considered necessary under the circumstances. The audit also included an evaluation of internal control for administering and managing FEMA disaster funds, including internal control deficiencies classified as "reportable conditions" in the Health Plan's Single Audit Reports.²

RESULTS OF AUDIT

The Health Plan generally accounted for and expended FEMA funds in accordance with federal regulations and FEMA guidelines. However, the Health Plan's claim included \$36,619 (FEMA's share - \$32,957) of duplicate benefits resulting from insurance recoveries. The Health Plan claimed \$149,537 approved by FEMA for 30 small projects. However, OES records showed that total small project costs were adjusted from the FEMA funded amount of \$149,537 to \$112,918 to reflect \$36,619 in insurance recoveries. FEMA records were not adjusted to reflect this insurance recovery. Thus, the \$36,619 received from insurance and funded by FEMA is a duplicate benefit to the Health Plan (see Exhibit A).

Section 312(a) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act states that no entity is eligible for disaster assistance with respect to any part of a loss for which it has received financial assistance from insurance. Also, Title 44, Code of Federal Regulations, Section 206.191 establishes policies to prevent duplication of benefits. Consequently, the OIG questioned \$36,619 of disaster funding received by the Health Plan for losses also covered by insurance.

OTHER MATTERS

During the audit of the Health Plan, the OIG noted the same internal control deficiencies that were reported in the Hospital's audit. These deficiencies included inadequate cash account management and reconciliation; and a lack of accounting for equipment by

² Single Audit Reports for calendar years 1997 through 2001 noted reportable conditions regarding internal control over financial reporting and operations.

location supported by periodic physical inventories. The same recommendation made in the Hospital audit is applicable to the Health Plan given that Health Plan will need to: (1) reconcile its accounting records once they are separated from the Hospital's records, and (2) account for its equipment by location and perform periodic physical inventories as a separate Kaiser Foundation entity. Therefore, the OIG is recommending that FEMA Region IX, alert OES as the grantee, of the Health Plan's material internal control weaknesses.

RECOMMENDATIONS

1. The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$36,619 of questioned costs.
2. The OIG also recommends that the Regional Director, FEMA Region IX, inform OES as the grantee, of the Health Plan's need to remedy internal control weaknesses once the Hospital provides reasonable assurance that federal awards are managed in compliance with laws and regulations (see OIG Audit Report Number DO-09-03 for details).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the audit results with the Health Plan and OES officials on April 10, 2003. The Health Plan officials concurred with the findings as presented in the audit report. OES officials deferred comment pending receipt of the final report. The OIG informed FEMA Region IX officials of the audit results on April 10, 2003.

Pursuant to FEMA Instruction 1270.1, please advise this office by August 4, 2003, of the action taken to implement our recommendations. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Ravinder Anand, and Curtis Johnson.

Schedule of Insurance Adjustments to Small Projects
Kaiser Foundation Health Plan
FEMA Disaster Number 1008-DR-CA

Project Number	Initial Award	Initial Insurance Payment	Adjusted FEMA Award Amount	Final Insurance Payment	Eligible Small Project Award Amount
16171	\$ 24,660	\$ 19,494	\$ 5,166	\$ 1,460	\$ 6,626
16774	3,125	2,470	655	185	840
22617	4,236	3,346	890	248	1,138
22691	20,026	15,821	4,205	1,176	5,381
22692	1,386	1,094	292	(153)	139
22990	1,820	1,438	382	107	489
33217	11,543	9,119	2,424	678	3,102
33218	38,057	30,065	7,992	2,234	10,226
36364	11,501	9,092	2,409	681	3,090
36366	5,420	4,285	1,135	321	1,456
51499	25,004	0	25,004	(18,285)	6,719
51500	29,902	0	29,902	(21,867)	8,035
51504	18,396	14,542	3,854	1,089	4,943
51505	4,601	3,637	964	272	1,236
51506	5,239	4,141	1,098	310	1,408
51507	11,593	9,164	2,429	686	3,115
51508	14,341	11,337	3,004	850	3,854
62214	24,149	0	24,149	(17,660)	6,489
64840	1,896	1,498	398	111	509
64846	32,784	25,916	6,868	1,171	8,039
64847	2,565	2,028	537	152	689
64857	23,821	18,830	4,991	1,410	6,401
64858	3,745	2,960	785	221	1,006
74170	2,405	1,900	505	141	646
74171	20,802	16,444	4,358	1,105	5,463
74173	26,989	21,335	5,654	6,087	11,741
76251	4,251	3,360	891	115	1,006
87647	29,938	23,666	6,272	1,035	7,307
09651	5,648	4,465	1,183	335	1,518
09653	1,141	0	1,141	(834)	307
Totals	<u>\$410,984</u>	<u>\$261,447</u>	<u>\$149,537</u>	<u>(\$36,619)*</u>	<u>\$112,918</u>